

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Southern California Edison  
Company (U338E) for Authority to, Among  
Other Things, Increase Its Authorized  
Revenues for Electric Service In 2012, And to  
Reflect that Increase in Rates.

Application 10-11-015  
(Filed November 23, 2010)

**REPLY BRIEF  
OF THE DIVISION OF RATEPAYER ADVOCATES**

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## **TABLE OF CONTENTS**

1.	Introduction.....	1
2.	Policy .....	1
2.1.	SCE’s Threats of Workforce Reductions.....	1
2.2.	SCE’s Claims of Job Growth.....	2
3.	Evidentiary Standards and the Burden of Proof .....	3
4.	Generation Expenses.....	3
4.1.	The Commission Should Disallow Capital Projects Authorized in Previous GRCs .....	3
4.2.	The Commission Should Examine The Need For The McGrath Peaker.....	5
5.	Transmission and Distribution.....	6
5.1.	T&D -- Policy .....	6
5.2.	T&D – Advanced Technology.....	10
5.3.	T&D -- Electric System Planning.....	11
5.4.	T&D – Load Growth: Capital Expenditures.....	11
5.4.1.	Subtransmission Lines Plan .....	11
5.4.2.	Distribution Substation Plan (DSP) .....	11
5.5.	T&D – Infrastructure Replacement .....	11
5.6.	T&D – Engineering.....	11
5.7.	T&D – Customer Driven Programs .....	11
5.8.	T&D -- Inspection and Maintenance .....	11
5.9.	T&D – Distribution Planning and Field Accounting.....	11
5.10.	T& D – Grid Operations .....	11
5.11.	T&D – Distribution Construction and Maintenance.....	11
5.12.	T&D – Substation Construction and Maintenance .....	12
5.13.	T&D – Transmission.....	12
5.14.	T&D – Business Process and Technology Integration .....	13
5.15.	T&D Technical Services.....	13
5.16.	T&D – Business, Regulatory and Financial Planning .....	13
5.17.	T&D – Other Costs and OOR.....	14
6.	Customer Service.....	14
7.	Information Technology and Business Integration.....	14
7.1.	Information Technology Expenses – Application Services.....	14
7.1.3.1.	MRTU Costs for New Software O&M.....	14
7.1.4.	Application Services Costs, Excluding Nuclear – Accounts 920/921 .....	14
7.2.	Information Technology Expenses – Technology & Risk Management.....	15
7.3.	Infrastructure Operations Management and Support.....	15
7.3.2.	Computing Services – Accounts 920/921 .....	16
7.4.	Information Technology Expenses - Business Operations Management .....	16
7.5.	SCE’s Forecasts of Capital Expenditures .....	16
7.6.	See Section 7.5 above. ....	17
7.7.	See Section 7.5 above. ....	17

7.8.	See Section 7.5 above.	17
8.	Human Resources	17
8.1.	Human Resources Department Expenses	17
8.2.	Human Resources Capitalized Software	17
8.3.	Results Sharing	17
8.4.	Spot Bonuses and ACE Awards	17
8.5.	Executive Compensation	17
8.6.	Pensions and Benefits	20
8.6.1.	Pensions	20
8.6.2.	PBOPs	21
8.6.3.	Other Benefits – Executive Benefits	21
9.	Administrative and General	22
9.1.1.	Account 925 – Liability Insurance	23
9.18.	NERC-CIP – Related Costs	23
10.	Power Procurement	24
10.1.	MRTU-Related Expenses Are Properly Booked to the MRTU Memorandum Account	24
10.2	SCE Does Not Need Additional Resources to Meet California’s 33% RPS Target in 2020	26
10.2.1.	33% RPS Program	27
11.	Operations Support	29
12.	Ratemaking	29
13.	Sales and Customer Forecast	29
14.	Cost Escalation	30
15.	Other Operating Revenue	30
16.	Post Test Year Ratemaking	30
16.1.	SCE’s Arguments	30
16.2.	PG&E’s Arguments	31
16.3.	CCUE’s Arguments	32
17.	Productivity	33
18.	Electric Plant	33
19.	Taxes	33
20.	Rate Base	33
21.	Non-Tariffed Products and Services	33
22.	Depreciation	33
23.	Jurisdictional Cost Separation	34
24.	Other Results of Operations Issues	34
25.	Audit	34
26	Conclusion	34



## **TABLE OF AUTHORITIES**

### **California Statutes**

Public Utilities Code Section 451 .....	passim
Public Utilities Code Section 454 .....	passim

### **CPUC Decisions**

<u>Opinion Denying Relief</u> (2003) D.03-03-034.....	29
<u>Opinion on Rate Base Revenue Requirement and Other Phase I Issues</u> (2004) D.04-07-022 .....	8
<u>Re PG&amp;E</u> (1989) 34 CPUC 2d 199; D.89-12-057 .....	8, 15
<u>Re Southern California Gas Company</u> (1993) 52 CPUC 2d 471, D.93-12-043 .....	29

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**1. Introduction**

Pursuant to Rule 13.11 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, and the schedule set by Administrative Law Judge Melanie Darling, the Division of Ratepayer Advocates (DRA) submits this Reply Brief to address some of the arguments made by parties relating to the test year 2012 General Rate Case (GRC) Application filed by Southern California Edison Company (SCE or Edison).

DRA's Opening Brief addressed most of the issues raised by SCE's Opening Brief. DRA will not reargue issues it has already discussed. Rather, this Reply Brief is limited to those arguments DRA did not previously address, and to specified statements in various parties' Opening Briefs. The Commission should not interpret DRA's silence on any matter raised in the Opening Briefs of others as support for the positions in those briefs.

**2. Policy**

**2.1. SCE's Threats of Workforce Reductions<sup>1</sup>**

As SCE did in its last GRC, SCE says in this one that "the funding levels proposed by DRA and Intervenor would lead to drastic cuts in SCE's workforce."<sup>2</sup> SCE also says that "SCE

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<sup>1</sup> DRA assumes that, in SCE's threats of "widespread workforce reductions" which would "result" from adoption of DRA and other Intervenor recommendations, SCE is *not* referring to the workforce reduction at SONGS that SCE itself proposes. (See SCE Opening Brief, p. 11.)

<sup>2</sup> SCE Opening Brief, p. 6.

developed an independent review of the cuts proposed by DRA.”<sup>3</sup> These statements go beyond argument; they are patently false.

DRA does not recommend any “cuts” to SCE’s workforce. Nor, to DRA’s knowledge, does any other party. SCE’s “review” was not “independent;” it was conducted by an SCE employee. The statement that this SCE employee “... confirmed 99% of the workforce reductions forecast by DRA in its Results of Operations Model” is, again, false since DRA does not forecast any workforce reductions.

SCE is currently paying its entire workforce with presently authorized GRC revenues. As the historical figures show, SCE’s O&M and other expenses have increased significantly over the past several years, and sizable workforce increases are already embedded in SCE’s authorized revenues.<sup>4</sup> DRA’s lower forecasts do not represent a reduction to the workforce; DRA simply recommends that the Commission reject the unsubstantiated, empire-building excesses SCE proposes.

It is unfortunate that SCE has chosen, once again, to try to bolster its weak showing by misrepresenting the positions of other parties, and then using those misrepresentations to threaten dire consequences to the public at large and SCE employees in particular. This tactic wastes the scarce time and resources of the other parties, and does nothing to assist the Commission in reaching a decision that is based on the law and the record.

As TURN points out in its Opening Brief, “blatant misrepresentations concerning the relationship between Results of Operations (RO) modeling and real life workforce levels are so egregious as to warrant severe condemnation by this Commission.”<sup>5</sup> DRA agrees.

## **2.2. SCE’s Claims of Job Growth**

As justification for its proposed multi-*billion* dollar increase, SCE says that “[i]n addition to preserving current levels of electric service reliability, SCE’s capital investment program will create nearly 13,000 jobs per year, including 10,000 non-utility jobs.”<sup>6</sup> SCE’s claims are based

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<sup>3</sup> SCE Opening Brief, third of five un-numbered pages, footnote 2.

<sup>4</sup> Ex. SCE-16, p. 14, Figure IV-7.

<sup>5</sup> TURN Opening Brief, p. 7.

<sup>6</sup> SCE Opening Brief, third un-numbered page, first heading.

on a report SCE commissioned from a consulting firm, Global Insights, claims that have not been, and perhaps cannot be, verified.<sup>7</sup>

SCE's attempt to portray itself, once again, as a public benefactor is unsupported and unconvincing. Not only has SCE provided no objective evidence to support its claims of job growth, SCE neglects to mention that the real beneficiaries of SCE's proposals are SCE's shareholders, who would earn a return on this investment. SCE also neglects to mention that it would be SCE's ratepayers who would be paying for that return.

As Aglet points out in its Opening Brief, "... Global Insight's approach to determining the economic impacts of customer payments to SCE is horribly flawed. Global Insight fails to account for ratepayer costs over the entire financial life of SCE's capital expenditures."<sup>8</sup> TURN similarly observes: "There is one additional point the Commission must keep in mind. Edison's claimed benefits result from the fact that Edison is 'forwarding' the regional economy money, and then collecting it back over time. In essence, Edison is acting like a lender or a bank. The problem is that Edison's 'interest rate' – its authorized rate of return of 8.75% -- is high at any time and extraordinarily high in the current economic environment."<sup>9</sup>

SCE is not a charitable entity; it is a for-profit enterprise, and has demonstrated throughout this rate case that its first priority is its shareholders. The Commission should give SCE's claimed "job creation" effects no weight whatsoever.

### **3. Evidentiary Standards and the Burden of Proof**

DRA's Opening Brief discusses DRA's position on this issue.

### **4. Generation Expenses**

#### **4.1. The Commission Should Disallow Capital Projects Authorized in Previous GRCs**

The Coalition of Utility Employees (CUE) and SCE argue that DRA improperly disallows certain capital projects projected for Catalina Island generation needs. DRA recommends that SCE's capital budget forecast for Catalina Island diesel generation in 2010 and 2011 be reduced by \$2.885 million in each year because two projects proposed – the Control

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<sup>7</sup> DRA Opening Brief, p. 5, citing SCE responses to DRA data requests in this GRC in which SCE stated it had not done anything, and would not do anything, to validate the claims it made in its TY 2009 GRC that its proposed capital expenditures would add "17,000 jobs". (See Ex. DRA-79 and DRA-80.)

<sup>8</sup> Aglet Opening Brief, p. 12.

<sup>9</sup> TURN Opening Brief, p. 14.

Room Betterment Project and the Main & Garage Betterments Project – were both approved and included in SCE’s 2009 GRC revenue requirement. CUE claims that DRA is “asking the Commission to eliminate all utility discretion to revise which projects are performed in what order.”<sup>10</sup> SCE makes a similar argument, claiming that DRA has ignored Commission decisions establishing “that utilities are not constrained to spend authorized amounts in precisely the categories authorized by the Commission.” SCE also argues that the projects DRA seeks to disallow are “necessary to provide a safe work environment for our employees.”

The CUE and SCE arguments go beyond the Catalina Island projects at issue here because DRA has recommended the disallowance of over \$500 million in capital forecasts on the basis that those projects were approved in previous GRCs.<sup>11</sup>

Both CUE and SCE misrepresent DRA’s point with regard to both these Catalina Island projects, and the nearly \$500 million in other projects that DRA recommends the Commission disallow. DRA does not challenge the need for those projects, and does not propose that SCE not be permitted to construct those projects. However, DRA does challenge the propriety of those projects being “re-approved” and included in SCE’s 2012 revenue requirement on the basis that SCE’s ratepayers have already been charged once for these projects, and should not be charged again for them in this rate case cycle.

SCE’s revenue requirement approved in the 2009 GRC was based on the understanding that the Catalina capital projects, and approximately \$500 million in other capital projects, would be put into service during the period covered by that GRC. As explained in DRA’s Opening Brief: “When SCE’s actual capital expenditures fall short of forecasted capital expenditures, SCE’s cash flows and profits increase, for the benefit of SCE shareholders and executives, and at the expense of SCE ratepayers.”<sup>12</sup>

SCE’s choice to defer those projects approved in the 2009 GRC until this rate case cycle means that ratepayers paid rates in 2009, 2010, and 2011 as if over a half billion dollars in assets were being used to provide service. If the Commission agrees with DRA that these projects should not be “re-approved” in this GRC, SCE may still build the projects. Nothing precludes SCE from building these projects whenever it wants – so long as the project is actually needed

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<sup>10</sup> CUE Opening Brief, p. 4.

<sup>11</sup> As noted in DRA’s Opening Brief, SCE has commenced construction on both projects. DRA OB at 38.

<sup>12</sup> DRA Opening Brief, p. 3.

and the costs are reasonable. However, to the extent the projects are constructed and operational during this GRC period, they will not count towards SCE's revenue requirement until the next GRC. Since SCE has already been paid once, as if these projects were operational, this procedure should serve to make ratepayers whole. Additionally, this approach gives SCE the proper incentive to accurately forecast its capital needs, and to avoid bloating its capital budgets with low priority projects.

DRA is not the only party concerned with the possibility that SCE has been intentionally over-forecasting its capital expenditures by carrying the same projects from one GRC to the next. TURN recommends that SCE's forecast capital expenditures for generation be trued-up to actual expenditures in 2010.<sup>13</sup> In support of its proposal, TURN explains that "[t]here is no dispute that SCE underspent generation capital by \$123,421,000 in 2010."

The Eastern Sierra Ratepayer Association (ESRA) devotes a significant portion of its Opening Brief to describe the problems in even identifying projects that have been approved but not been constructed from one GRC cycle to the next.<sup>14</sup> DRA shares ESRA's concerns and supports ESRA's request to require SCE to provide specific information about that status of projects included in GRC forecasts from one GRC to the next.

#### **4.2. The Commission Should Examine The Need For The McGrath Peaker<sup>15</sup>**

TURN argues that the need for the McGrath Peaker should be examined by the Commission prior to its construction.<sup>16</sup> Among other things, TURN suggests that the initial Commission review of the need for the plant was inadequate, that there is no demonstrated need to locate the plant in Oxnard, and that other alternatives should be considered. DRA agrees with TURN that the prior Commission determinations were inadequate and that the Commission should take this opportunity to create a clear procedural venue to consider SCE's claims of need for the McGrath Peaker, with an emphasis on SCE's claim that the plant is needed to meet local reliability needs in the Oxnard and Ventura area. This is consistent with the Assigned

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<sup>13</sup> TURN Opening Brief, pp. 52-53.

<sup>14</sup> ESRA Opening Brief, pp. 10-23.

<sup>15</sup> DRA also agrees with TURN's recommended disallowance of \$25.3 million from forecasted capital expenditures to reflect the McGrath Peaker.

<sup>16</sup> TURN Opening Brief, pp. 15-28.

Commissioner's Ruling and Scoping Memorandum issued in the proceeding considering SCE's cost recovery for the other four peakers.<sup>17</sup> That Ruling held:

All issues associated with the proposed fifth peaker unit (including siting, all costs, and initial operations) are excluded from this proceeding. Edison should timely file a separate application for the proposed fifth peaker unit.

Consistent with the Ruling, SCE should be directed to file a separate application that permits the Commission to consider, and, if necessary, direct SCE to pursue alternatives that would avoid the need to build a new generator on the California coast.

## **5. Transmission and Distribution**

### **5.1. T&D -- Policy**

SCE's Opening Brief contains a number of overarching statements and assertions in connection with its Transmission and Distribution Business Unit (TDBU) Operations and Maintenance (O&M) expense forecasts that are not based on the record or are contradicted by it. Time does not permit DRA to identify every misstatement, but they are particularly prevalent in SCE's arguments about embedded costs and forecasting methods. These misstatements and assertions color SCE's entire showing and are further proof that SCE's request is unjustified and should be rejected.

#### Embedded Costs

In its testimony, DRA points to a number of instances where SCE has prior, embedded costs in rates. Embedded costs can include historical costs for routine activities that are the same as, or similar to, activities SCE is forecasting. Embedded costs can also include costs for projects that have been closed or completed for which SCE is no longer incurring costs, but is still collecting funds for the closed projects in rates. Embedded costs can also include projects where SCE was authorized to collect funds in rates, but instead of spending the funds on the project or projects which SCE told the Commission it was going to undertake, SCE spent the money elsewhere.

In its Opening Brief, SCE states that it "is not sure what DRA's phrase 'embedded in historical expenses' means."<sup>18</sup> This beggars belief and calls into question the credibility of all of SCE's arguments. For example, in response to a DRA recommendation disallowing certain

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<sup>17</sup> Assigned Commissioner's Ruling and Scoping Memorandum, A.07-12-029, June 9, 2009.

<sup>18</sup> SCE Opening Brief, p. 67.

costs, SCE argues that DRA failed to address SCE's testimony because there are no costs "... embedded in recorded expenses as DRA would suggest."<sup>19</sup> And earlier, with regard to intrusive wood pole inspections SCE says that "the expenses related to this work were **embedded** in the pole maintenance account."<sup>20</sup>

Many of DRA's recommendations regarding embedded costs come from information SCE itself provided. For example, in its direct testimony, SCE says that "multiple relay positions are being replaced by one single relay ... which are more reliable digital relays."<sup>21</sup> SCE's testimony further states that "one micro-processor relay replaces many electro-mechanical relay units which drives down our volume of relay routine inspection and maintenance, but increases the complexity and duration of each activity."<sup>22</sup> SCE cannot have it both ways. Either the relays are more reliable and require less maintenance, or they are not and require a higher level of maintenance. Since it is unlikely that SCE would replace "multiple" relays with a single relay that is less reliable, SCE will have efficiency gains, which will reduce expenses. In short, this means that SCE has historical/embedded costs in its rates that should be allocated/taken into account to address its test year activities.

The record is filled with numerous other examples of embedded costs. During cross examination, for instance, SCE admitted that it received its entire 2009 requested safety meeting expense request, but instead of spending the money on this safety training, it postponed the training and spent the money elsewhere.<sup>23</sup> Clearly, SCE has embedded costs in rates and SCE should not now be trying to double collect from its ratepayers.

More importantly, the time is ripe for this Commission to require that SCE track the "where" and the "when" for funds reallocated from areas/projects to other areas/projects. Currently, SCE puts forth its case and requests funds for **specific** projects, and is authorized recovery for such; but time and time again, SCE returns and requests funds for those exact projects because management made a determination to spend that money elsewhere. This situation is untenable. It is impossible to ascertain whether SCE's rates are just and reasonable if

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<sup>19</sup> Id at 165.

<sup>20</sup> Id at 148, fn. 977, emphasis added.

<sup>21</sup> Ex. DRA-5, pp. 70-71, citing Ex. SCE-03, Vol. 4, Part 7, p. 24.

<sup>22</sup> Ex. DRA-5, pp. 70-71, citing Ex. SCE-03, Vol. 4, Part 7, p. 23.

<sup>23</sup> 11 RT 1408:18-28; 1409:1-4, 1412-1420 SCE/Antillion, and 10 RT 1146:24-28, Reeves/SCE.

SCE is allowed to move ratepayer money around without providing some way to track where it went. This issue goes to the heart of utility regulation. It has been too often that the answer to the question “where did the money go or to what project did it go to?” is “I don’t know.”<sup>24</sup>

Public Utilities Code Section 451 is quite instructive:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

In order to determine whether SCE’s rates are just and reasonable, this Commission should require SCE to submit future rate cases in a manner that allows the Commission and intervenors to be able to track what was requested, authorized and actually spent. By changing where it records expenses from rate case to rate case, SCE has made it nearly impossible for any party to the proceeding, and, ultimately the Commission, to do so. In light of SCE’s failure to present its case in a way that allows for meaningful accountability, no rate increase is justified.

#### Appropriate Methodology

Throughout its Opening Brief, SCE argues that DRA ignores Commission guidance from D.89-12-057 on the appropriate forecast method. Yet interestingly, SCE does not take the same approach when SCE decides to diverge from Commission guidance. For example, with regards to “training seat-time”, SCE comes up methodology that “ignore[s] or fail[s] to apply guidance by the Commission regarding forecasting principles ...” in that the methodology used is neither a five-year or three-year average, nor is it the last recorded year. Instead, SCE bases its forecast for training seat-time on the average of the forecasted years 2010 through 2014. As the Commission has stated “selecting the most appropriate method to forecast test year expenses is ultimately a matter of informed judgment ...”<sup>25</sup>

With this in mind, DRA takes issue with SCE’s methodology when SCE bases its forecasts on the premise that capital distribution maintenance and O&M breakdown maintenance have similar drivers.<sup>26</sup> DRA has demonstrated that, in reality, there is no correlation between

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<sup>24</sup> See for example, 11 RT 1410:18-28, 1411:1-5 SCE/Antillion.

<sup>25</sup> D.04-07-022, p. 19.

<sup>26</sup> 13 RT 1710:24-28 and 1711:1-2.

capital distribution maintenance and O&M breakdown maintenance.<sup>27</sup> As such DRA's methodology, based on SCE's recorded, adjusted expenses in the expense sub-accounts, is reasonable and DRA's recommendations should be adopted.

It is unfortunate that, in its disagreement with DRA's O&M forecasts, SCE uses its Opening Brief as a vehicle to make ad hominem attacks<sup>28</sup> against DRA's O&M witness. For example, one heading in SCE's Opening Brief is the following: **"DRA's Testimony Evidences A Disturbing Lack Of Understanding Of SCE's System."**<sup>29</sup> SCE goes on to state that DRA's "testimony, both written and oral, demonstrates a serious and disturbing lack of understanding of SCE's system and drivers of costs."<sup>30</sup> SCE then says that "...DRA's O&M witness, who recommends more than a \$100 million reduction to SCE's TDBU operations and maintenance request, could not explain the function of fundamental pieces of equipment, the maintenance and inspection of which are funded by this request."<sup>31</sup> From this, SCE concludes that "[t]he Commission cannot rely on DRA's proposals when those proposals lack of even a rudimentary understanding of what is being operated and maintained."<sup>32</sup> This is nonsense.

First, the Commission has clearly rejected any implication that judgment, experience, training and education

...are the exclusive province of utility witnesses, who will invariably have the most intimate knowledge of their area of operations. In other words [D]RA and intervenor analysts are entitled to offer and have us consider their expert opinions based on informed judgment, even if they have never been employed by a public utility.<sup>33</sup>

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<sup>27</sup> SCE's witness admitted during cross examination that there was no correlation between capital and O&M. See specifically 13 RT 1718:14-28 Martinez/ SCE, and generally 13 RT 1715- 1719 Martinez/ SCE, and Ex SCE-18, V. 4, Part 6, p. 2, Table I-1 and p. 21, Table I-11 and p. 22, Table I-12.

<sup>28</sup> Ad Hominem is short for *argumentum ad hominem*, and is "an attempt to negate the truth of a claim by pointing out a negative characteristic or belief of the person supporting it." [Wikipedia, quoting West's Encyclopedia of American Law.](#)

<sup>29</sup> SCE Opening Brief, p. 66, emphasis in original.

<sup>30</sup> Id at 67.

<sup>31</sup> Id.

<sup>32</sup> Id.

<sup>33</sup> Opinion on Base Rate Revenue Requirement and Other Phase 1 Issues (2004) D.04-07-022, p. 19.

More importantly, DRA's O&M witness has extensive experience analyzing O&M and A&G expenses in at least nine general rate cases. DRA's O&M witness also has knowledge of, and experience with, SCE's forecasting methods and actual spending.

For example, in its 2009 GRC, SCE requested a 206.2% increase over 2006 recorded, adjusted expenses for Account 563.100<sup>34</sup>. The main driver for this increase was a forecast expense of \$10.6 million for a transmission line clearance study. Even though DRA's witness demonstrated that this increase was excessive, the Commission nevertheless granted SCE's full request. In the case at hand, DRA's witness discovered that, of the \$10.6 million that SCE was authorized to spend on the transmission line clearance study, SCE only spent \$3.36 million.<sup>35</sup>

Another example of this witness's experience can be found by looking at SCE's request for transmission and distribution training delivery and training seat-time expenses. In its 2009 GRC, SCE requested and was authorized to collect in rates \$50.1 million. DRA's witness again expressed concern over this high level of funding. Even though the Commission authorized SCE's request, the Commission acknowledged that the increase was "significant."<sup>36</sup> In the case at hand, DRA's witness discovered that SCE only spent \$39.3 million of the authorized amount.

With regards to distribution intrusive wood pole inspections in SCE's 2009 GRC, SCE requested and was granted approximately 90% of its request, (approximately \$7.8 million<sup>37</sup>). Again DRA's witness expressed concern over this high level of funding. In the case at hand, DRA's witness discovered that SCE only spent \$5.9 million.<sup>38</sup>

Clearly this DRA witness knows what she is talking about. The Commission should ignore SCE's ad hominem attacks and focus on the evidence before it. That evidence supports DRA's recommendations.

## **5.2. T&D – Advanced Technology**

DRA's Opening Brief addresses SCE's arguments in this area.

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<sup>34</sup> This Account 563.100 no longer exists. SCE changed its accounting system making it extremely difficult, if not impossible, to track prior authorized amounts and monies expended. And, in this case, SCE not only changed the sub-account, it changed the FERC Account in which it now records these costs. See also 13 RT 1775:21-28 and 1776:1-24 for a discussion of SCE changing its sub-accounting system.

<sup>35</sup> Ex. DRA-5, p. 124.

<sup>36</sup> D.09-03-025, p. 63.

<sup>37</sup> These dollars have not been adjusted to 2009 constant dollars.

<sup>38</sup> The \$5.9 million represents 2009 recorded, adjusted dollars.

### **5.3. T&D -- Electric System Planning**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.4. T&D – Load Growth: Capital Expenditures**

#### **5.4.1. Subtransmission Lines Plan**

In its Opening Brief, SCE relies on information that was the subject of a successful Motion to Strike. As such, the information can not be relied upon to support SCE's request. Since SCE's only justification for this request is the information that was stricken, the entire request should be rejected and instead the Commission should adopt DRA's recommendation.<sup>39</sup>

#### **5.4.2. Distribution Substation Plan (DSP)**

In its Opening Brief, SCE, relies on information that was the subject of a successful Motion to Strike. As such, the information can not be relied upon to support SCE's request. Since SCE's only justification for this request is information that was stricken, the entire request should be rejected and instead the Commission should adopt DRA's recommendation.<sup>40</sup>

### **5.5. T&D – Infrastructure Replacement**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.6. T&D – Engineering**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.7. T&D – Customer Driven Programs**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.8. T&D -- Inspection and Maintenance**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.9. T&D – Distribution Planning and Field Accounting**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.10. T&D – Grid Operations**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.11. T&D – Distribution Construction and Maintenance**

DRA's Opening Brief addresses SCE's arguments in this area.

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<sup>39</sup> There are ancillary/associated dollars/funding requests based on SCE's subtransmission line request and all of these associated requests should be reduced commensurate with the reduction to SCE's subtransmission line request.

<sup>40</sup> There are ancillary/associated dollars/funding requests based on SCE's distribution substation request and all of these associated requests should be reduced commensurate with the reduction to SCE's distribution substation request.

### **5.12. T&D – Substation Construction and Maintenance**

DRA's Opening Brief addresses SCE's arguments in this area.

### **5.13. T&D – Transmission**

Operations and Maintenance Expenses - 563.160, 564.160, 566.160, 567.160 & 571.160  
563.160 – Overhead Transmission Line Inspection

In this area, DRA used a two-year average of SCE's expenses for 2008 and 2009. DRA was forced to use a two year average because SCE only provided two years of recorded, adjusted expenses in its testimony.<sup>41</sup> In fact, SCE only began tracking transmission intrusive pole inspections program costs in 2008.<sup>42</sup> In response to a data request, SCE suddenly came up with costs for the years 2005 through 2007. However, these costs lacked support and basis and were lumped together with corrections.<sup>43</sup> In addition, SCE failed to provide any discussion regarding the two years of data provided in its testimony, or the three years of missing data, or what SCE meant when it stated that it began specifically tracking transmission intrusive pole inspection program costs in 2008.<sup>44</sup>

Yet incredibly, SCE claims in its Opening Brief that it "provided all the additional supporting material that DRA claims was not provided."<sup>45</sup> This is simply wrong, a fact underscored in one of SCE's footnotes where SCE admits that it did not provide the information to DRA, but instead provided it to TURN.<sup>46</sup>

Continuing with misstatements, SCE alleges that if the Commission were to adopt DRA's recommendation, it would take SCE **80 years** to intrusively inspect all of its transmission poles. This claim was disproved during cross examination, where the SCE subject matter witness, when asked if he agreed with such, responded "[w]ithout any context, it doesn't – that doesn't make sense to me."<sup>47</sup>

The Commission should place no reliance on SCE's misstatements of the record. DRA's recommendations should be adopted.

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<sup>41</sup> Ex. DRA-5, p. 77.

<sup>42</sup> Id. See also, DRA-5, p. 75, Table 5-37.

<sup>43</sup> Id at 77, fn.183.

<sup>44</sup> Id.

<sup>45</sup> SCE Opening Brief, p. 148.

<sup>46</sup> SCE Opening Brief, p. 148, fn 977.

<sup>47</sup> 13 RT 1772:18-28 and 1773:1, Stark/SCE.

#### **5.14. T&D – Business Process and Technology Integration**

DRA’s Opening Brief addresses SCE’s arguments in this area.

#### **5.15. T&D Technical Services**

DRA’s Opening Brief addresses SCE’s arguments in this area.

#### **5.16. T&D – Business, Regulatory and Financial Planning**

In its Opening Brief SCE states that it needs “...additional staffing to negotiate and manage the significant increase in grid interconnection contracts ...”<sup>48</sup> While SCE has tried to demonstrate that the number of interconnection requests has increased, it has failed to demonstrate that the costs associated with this increase should be borne by its ratepayers.

SCE states that these costs are above and beyond the costs charged to generators seeking to interconnect: “[t]he costs of the study, my testimony covers the contract association and development, not the study work [and takes place a]fter the study and the design.”<sup>49</sup> However, when reviewing the underlying interconnection provisions<sup>50</sup> it seems that **all** costs are borne by the developer seeking to interconnect. The WDAT<sup>51</sup> provisions specifically set forth tendering and negotiating requirements<sup>52</sup> and these costs are included in the costs assessed upon the generator seeking interconnection.

In light of DRA’s showing vis a vis SCE’s improper NERC CIPS request, the Commission should take a jaundiced view of SCE’s statements that it is definitely not billing its ratepayers and the generator for the same costs.<sup>53</sup> In fact, the actual words of the WDAT tariff belie SCE’s statement as the developer has to post a financial security instrument prior to SCE

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<sup>48</sup> SCE Opening Brief, p. 163.

<sup>49</sup> 10 RT 1152:23-28 and 1153:1-3. In its rebuttal testimony, SCE uses the words “negotiate” and “manage” as opposed to “contract association” and “development”.

<sup>50</sup> See, DRA Ex 39, for example, p.2, [http://www.sce.com/NR/sc3/tm2/RPA/Reg\\_Info\\_Ctr/OpenAccess/WDAT/attachment\\_I.pdf](http://www.sce.com/NR/sc3/tm2/RPA/Reg_Info_Ctr/OpenAccess/WDAT/attachment_I.pdf), which sets for the generator interconnection request requirements.

<sup>51</sup> Wholesale Distribution Access Tariff.

<sup>52</sup> Section 6.13 Generator Interconnection Agreement; 6.13.1 Tender; 6.13.2 Negotiation ([http://www.sce.com/NR/sc3/tm2/RPA/Reg\\_Info\\_Ctr/OpenAccess/WDAT/attachment\\_I.pdf](http://www.sce.com/NR/sc3/tm2/RPA/Reg_Info_Ctr/OpenAccess/WDAT/attachment_I.pdf)).

<sup>53</sup> 10 RT 1153:8-11, Reeves/SC.

allowing the generator to interconnect.<sup>54</sup> Based on a reading of the tariff, the securities cover **all** generation interconnection costs. SCE has failed to meet its burden. SCE's request should be rejected and DRA's recommendation adopted.

DRA's Opening Brief addresses the rest of SCE's arguments in this area.

#### **5.17. T&D – Other Costs and OOR**

DRA's Opening Brief addresses SCE's arguments in this area.

#### **6. Customer Service**

DRA's Opening Brief addresses SCE's arguments in this area.

#### **7. Information Technology and Business Integration**

##### **7.1. Information Technology Expenses – Application Services**

DRA's Opening Brief addresses SCE's arguments in this area.

##### **7.1.3.1. MRTU Costs for New Software O&M**

SCE takes issue with DRA's recommendation to move all MRTU costs in the New Software O&M to the MRTUMA account as ordered in Resolution E-4087. DRA's Reply brief addresses SCE's arguments below in Section 10.1.

##### **7.1.4. Application Services Costs, Excluding Nuclear – Accounts 920/921**

SCE misapplies D.89-12-057 in using a trend to forecast future Application Services expenses for this GRC. According to SCE, "the historical data in this account show a steady upward trend from 2005 through 2009, with the exception of 2008."<sup>55</sup> However, the historical data for Applications Services Labor that SCE is referring to is as follows<sup>56</sup>:

2005	2006	2007	2008	2009
30,012	26,538	23,284	23,955	38,018

The last recorded year is clearly an anomaly. It is \$15.0 million more than the two years prior to it, and \$8.0 million more than the earliest recorded date. If the Commission allows such anomalies in the last year recorded data to form the basis of a trend, what is to prevent utilities

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<sup>54</sup> Section 4.8 Generator Interconnection Agreement; 6.13.1 Tender; 6.13.2 Negotiation ([http://www.sce.com/NR/sc3/tm2/RPA/Reg\\_Info\\_Ctr/OpenAccess/WDAT/attachment\\_I.pdf](http://www.sce.com/NR/sc3/tm2/RPA/Reg_Info_Ctr/OpenAccess/WDAT/attachment_I.pdf)).

<sup>55</sup> SCE Opening Brief, p.208.

<sup>56</sup> Ex. DRA-16, p. 11, Table 16-4 ("In Thousands of 2009 Dollars")

from deferring large portions of their expenditures to the last recorded year? Further, it should be noted that SCE used several adders to boost costs in IT&BI.<sup>57</sup>

Application Services' non-labor cost data is skewed upwards by the addition of FERC 923 Accounts into that expense. Thus, even if there was no increase in non-labor costs for Applications Services, commingling FERC 921 and 923 Accounts renders the non-labor expenses invalid as historical data, which includes years in which the two accounts were not commingled. Notwithstanding these facts, DRA still recommended using an average that included the unusually high last year recorded data. DRA's recommendation is more than generous and certainly nothing higher should be adopted.

### **7.2. Information Technology Expenses – Technology & Risk Management**

SCE forecasted \$34.506 million in 2012 “for costs in technology and risk management to address increased cyber threats and to meet new NERC-CIP regulated requirements.” DRA recommended approximately \$14 million.<sup>58</sup>

However, this was before DRA learned at hearings that SCE was requesting 100 percent NERC/CIP costs from FERC. Because those costs are FERC authorized and approved, SCE should not have included those costs in this GRC and should not be allowed to recover them from CPUC jurisdictional ratepayers. Therefore, DRA recommends that SCE's request be denied in its entirety.

### **7.3. Infrastructure Operations Management and Support**

The difference between SCE's and DRA's recommendations in this section is again the method used in the forecast. SCE used trending from the last year recorded data; DRA used an average.

This SCE division handles monitoring and restoration activities, infrastructure oversight and reporting for the IT&BI systems. It is unreasonable to assume that costs will have an upward trajectory when the system they monitor remains largely the same. Ironically, SCE claims that it used the last year recorded data “as the basis for this account because the costs remained relatively flat from 2006 to 2009.”<sup>59</sup> SCE says its approach is “consistent with D.89-

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<sup>57</sup> Ex. DRA-16, p. 11.

<sup>58</sup> Ex. DRA-16, p. 13.

<sup>59</sup> SCE Opening Brief, p. 211.

12-057.”<sup>60</sup> It is unclear how consistency supports the use of last year recorded data more than it does the use of an average in this instance, especially when the difference between the two methods is \$4.99 million dollars.

### **7.3.2 Computing Services – Accounts 920/921**

SCE decided to forecast labor and non-labor expenses separately in this division of IT&BI. Thus, SCE adds another unusual accounting method to its commingling of FERC Accounts 921/923 thereby maximizing the amount of speculative revenue it could collect from ratepayers. DRA averaged the last three years’ recorded data and recommended \$24.916 million.

The Commission should adopt DRA’s recommendations. It should be noted that SCE claims the main increase in the amount it seeks as compared to DRA includes “database support for MRTU in 2012”<sup>61</sup> DRA addresses its objections to including MRTU costs below in Section 10.1 of this Reply Brief.

### **7.4. Information Technology Expenses - Business Operations Management**

For this division, SCE used a three year average to determine the test year labor expenses, but used the last year recorded data to forecast the non-labor expense. This is interesting because the last year recorded non-labor FERC 921 Account would include the contingent labor expenses that would not have been in the two prior years, thus spiking the costs upward with what was not historically categorized as non-labor expense.

The Commission should not reward this misuse of the accounting system. DRA recommends using a three year average for a forecast amount of \$19.68 million.

### **7.5. SCE’s Forecasts of Capital Expenditures**

DRA used a five-year average to forecast the IT Capital Expenditures. SCE used a budget-based method. In its Opening Brief, SCE says that DRA recommended adjustments to SCE’s IT&BI capital forecast are “unsound.”<sup>62</sup>

DRA disagrees, and continues to recommend the Commission adopt no more than DRA’s forecasted IT capital expenditures of \$211.08 million for 2013, and also for 2014.<sup>63</sup> Using a

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<sup>60</sup> SCE Opening Brief, p. 211.

<sup>61</sup> SCE Opening Brief, p.211.

<sup>62</sup> SCE Opening Brief, p. 213.

longer period, as DRA recommends, to average these expenditures (five years as opposed to three) captures the cyclical nature of capital expenditures, and ensures that the periods of low investment do not heavily impact periods of rather level investment activity or vice versa. On average, the last few years at SCE would be far above what should be expected in the period covered by this GRC because SCE was involved in several heavy capital projects, such as its Enterprise Resource Planning project, that would not be repeated in this GRC. A five-year average as the basis for the capital forecast is reasonable and should be adopted.

**7.6. See Section 7.5 above.**

**7.7. See Section 7.5 above.**

**7.8. See Section 7.5 above.**

## **8. Human Resources**

### **8.1. Human Resources Department Expenses**

DRA's Opening Brief addresses SCE's arguments in this area.

### **8.2. Human Resources Capitalized Software**

DRA's Opening Brief addresses SCE's arguments in this area.

### **8.3. Results Sharing**

DRA's Opening Brief addresses SCE's arguments in this area.

### **8.4. Spot Bonuses and ACE Awards**

DRA's Opening Brief addresses SCE's arguments in this area.

### **8.5. Executive Compensation**

Throughout its Opening Brief, SCE refers to its Total Compensation Study as if that Study "proves" SCE's compensation levels are reasonable. It does not. DRA's Opening Brief already addresses many of the arguments SCE includes in its Opening Brief; this Reply points out some additional flaws both in the Study and in SCE's characterization of it.

First, by the end of TY 2012, the data used in SCE's Total Compensation Study will be three years old, and the results of the Study are very sensitive to changes over time in individual positions. For example, two positions in particular saw major changes from 2006 to 2009 that affected the results of the TY 2009 and TY 2012 Studies: the position of Manager Project/Product II for the Manager/Supervisor job category, and the temporary position of Meter

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<sup>63</sup> Ex. DRA-16, p. 16.

Reader 2 for the Clerical job category. Given changes in these specific jobs, the former job category changed from -5% below comparator levels in 2006 to -15.2% below in 2009; the latter job category changed from -6.3% below comparator levels in 2006 to -10.5% below in 2009.<sup>64</sup> To estimate how such changes could have affected the Total Compensation Study for 2012, DRA calculated that the changes to the two job categories from 2006 to 2009 may have changed the results for the Test Year 2012 Study by about -3%, from -1.8% to about -4.7%.<sup>65</sup>

In the past few years, the economy and labor markets within which SCE operates and recruits labor have changed. Two aspects of these changes are striking: California's unemployment rate at 12.1% is among the highest in the U.S., and unemployment in many of the counties which SCE serves is even higher than that.<sup>66</sup>

Past research about recruiting and retaining utility employees suggests that total compensation (pay and benefits) is a relatively insignificant factor in decision-making by employees. Job security, opportunities for advancement, type of work and pride in a company appear to be more important factors.<sup>67</sup>

DRA also questions the degree of transparency and clarity in the Total Compensation Studies. One example involves the Executive job category as shown in Table 1 of SCE's TY 2012 Total Compensation Study.<sup>68</sup> In particular, the Executive job category only includes the 31 Executive officers of SCE, while many more "non-officer executives" also receive Executive incentives and SERP benefits. A more transparent Executive job category would include *all* employees who receive such executive forms of compensation; and having the study provide the details could be useful for analysis if the Total Compensation studies are to be continued.

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<sup>64</sup> See Ex. SCE-6, Vol. 2, Appendix B, p. B-5, Table 1 "Competitive Summary "SCE versus Market" and attendant footnotes.

<sup>65</sup> Id. The overall total compensation result from the 2012 study shows SCE about -5% below market. DRA changed the "Total Comp" results for the manager/supervisor category from -15.2% for the 2012 study to -5% from the 2009 study. DRA also changed the "Total Comp" results for the clerical category from -10.5% for the 2012 study to -6.3% from the 2009 study. These two changes resulted in changing the overall total compensation result for 2012 from about -5% to -1.8%, a notable difference.

<sup>66</sup> See Ex. DRA-15, p. 8.

<sup>67</sup> See e.g., 23 RT 3835, Miller/ SCE.

<sup>68</sup> See SCE-6, Vol. 2, Appendix B, Table 1, p. B-5.

In SCE's TY 2012 Total Compensation Study, there are five job categories which encompass all SCE employees: physical/technical, clerical, professional/technical, manager/supervisor, and executive. These five groups account for SCE's December 18, 2009 payroll of \$1,523.6 million dollars for the 2012 Total Compensation Study that uses 2009 data. The Executive job category only accounts for \$14.6 million of the payroll while the manager/supervisor category accounts for \$376.6 million. Also, while the non-cash and non-stock "benefits" were near or just below market for four of the job categories, the Executive category showed benefits that were 70% above the comparator group of firms. This was primarily due to the value of the Executive retirement benefits and in particular the manner in which the SERP benefits were valued for the 2012 Total Compensation Study.<sup>69</sup>

In regard to the Executive category, the \$14.6 million of executive payroll for the "Total Compensation Study" only includes the 31 Executive officers, who also receive short and long term incentives as well as special Executive benefits such as SERP. But 150-180 of SCE's high level managers ("Directors" or "Non-officer Executives" according to SCE) also receive long-term incentives.<sup>70</sup> In addition, a total of 222 individuals are receiving SERP executive benefits.<sup>71</sup> Thus, while the Total Comp Study only uses a population of 31 Executive officers for the "Executive" job category, SCE also labels an additional 150-180 high level managers as "non-officer executives" and gives those employees long-term incentives, and a total of 222 employees receive SERP benefits. So Executive long-term incentives and SERP benefits accrue to many more employees than just the 31 Executive officers within the Executive job category of the Total Compensation Study.

Given the above, the Executive job category understates the number of employees receiving base pay, short term executive cash incentives and executive compensation in the form of long-term stock incentives and SERP benefits. DRA suggests that a more appropriate "Executive" job category would include executive officers plus all high level managers who receive Executive incentives or benefits. If, for example, about 180 such employees were included in the Total Compensation Study for 2012, this would have increased the base "payroll weighting" for the Executive category from about 1% to about 3% of the total company payroll

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<sup>69</sup> See Ex. SCE-6, Vol. 2, Appendix B, pages 3-4 ("Executive").

<sup>70</sup> See Ex. DRA-13, p. 26, lines 4-9.

<sup>71</sup> See Ex. SCE-33, ALJ Darling-SCE-002, Q.1. About 25% of these individuals are retired.

for 2009. Furthermore, if incentives plus benefits were totaled as dollars for the 180 or so employees, the total could well have amounted to 10% or more of SCE's total compensation for 2009. Since 180 employees amounted to just over 1% of all SCE employees in 2009, this would mean that about 1% of the redefined "Executive" employees could have been receiving 10% or more of total SCE compensation. This kind of more detailed data would be useful information to provide if future total compensation studies are considered.

As DRA noted in its Opening Brief, DRA is currently assessing internally whether Total Compensation Studies in general have outlived their usefulness. In the meantime, however, this one should be accorded no weight.

## **8.6. Pensions and Benefits**

### **8.6.1. Pensions**

DRA has already addressed most of SCE's arguments about ratepayer funding of SCE's pension requests in DRA's Opening Brief. DRA addresses here misstatements of fact relating to the pension issue that appear in SCE's Opening Brief.

First, SCE says that "DRA's recommendation to limit pension cost recovery to 2009 authorized level is based on its incorrect assumption that an updated pension forecast would likely be 'favorable to ratepayers given the actual rate of return and actual plan asset valuation at year's end.'"<sup>72</sup> SCE is incorrect. DRA's recommendation to limit pension recovery to the 2009 authorized level is based on Public Utilities Code Sections 451 and 454 which prohibit rate changes except upon a showing that the new rate is just and reasonable.

DRA asked SCE to provide specific information so that DRA could present the Commission with a thorough analysis of SCE's pension plans. SCE chose not to provide it. Whether that information would have been useful to DRA or, ultimately to the Commission, is not for SCE to determine.

DRA disagrees with SCE's statements that its "updated pension cost forecast showed projected pension costs ... higher than SCE's test year request ..." and that "this higher than projected pension cost is the result of various factors *outside of SCE's control*."<sup>73</sup> SCE certainly has control over the number of new employees it hires, and what pension benefits it offers them;

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<sup>72</sup> SCE Opening Brief, p. 246.

<sup>73</sup> SCE Opening Brief, pp. 246-247, emphasis added.

both are actions which increase plan liabilities. The fact that SCE *has not* made any attempt to control its pension costs does not mean that it *cannot* do so.

DRA also disputes SCE's statement that "SCE's witness tried several times to contact DRA's witness by telephone to discuss this issue, but his calls were not returned."<sup>74</sup> The recent ALJ Ruling provides the accurate summary of the record on this issue:

A similar problem arose during the evidentiary hearings of this 2012 GRC, where DRA moved to strike rebuttal testimony in the area of pension funding which appeared almost three months after SCE responded to a data request for the information by stating it was too burdensome to develop it. SCE's witness admitted that the information was being gathered about the time of the response to the data request, and suggested it had "tried" to notify DRA but it was really a matter of "just the timing" which resulted in the surprise appearance of the information in rebuttal testimony. Because DRA was not able to confirm whether SCE had made an attempt to notify DRA of the new data, I did not strike the testimony, and instead admonished SCE that the data request response was misleading and that they should correct or supplement their data responses if they change.<sup>75</sup>

DRA continues to recommend the Commission limit ratepayer funding of SCE's pension plan to the 2009 authorized level.

#### **8.6.2. PBOPs**

DRA's Opening Brief addresses SCE's arguments in this area.

#### **8.6.3. Other Benefits – Executive Benefits**

In connection with SCE's request for ratepayer funding in 2012 of \$17 million for Executive Benefits, SCE offers the following in its Opening Brief:

Despite directly participating in the Total Compensation Study, which showed that the total compensation provided to SCE's executives is below market, DRA now calls the Total Compensation Study results "meaningless" and that "ratepayers should not be required to bear the costs of exclusive executive benefits that exceed either what is authorized by tax code and other pertinent laws and regulations."<sup>76</sup>

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<sup>74</sup> SCE Opening Brief, p. 247.

<sup>75</sup> Administrative Law Judge's Ruling on Various Matters Related to Update Testimony and Hearings, p. 14.

<sup>76</sup> SCE Opening Brief, p. 256.

SCE mischaracterizes DRA's testimony. What DRA's testimony on Executive Benefits actually says is the following:

DRA opposes the inclusion of any supplemental executive benefits in revenue requirements. SCE's argument that the total compensation provided to executives is below market is meaningless.<sup>77</sup>

Regardless of where SCE's Executive Benefits fall in the Total Compensation Study<sup>78</sup>, SCE's ratepayers should not be required to fund them at all. Whether or not SCE considers it "fairly common for companies to offer an additional retirement plan to executives"<sup>79</sup> is irrelevant to the question of whether SCE's ratepayers should pay these supplemental benefits. Nothing in the Total Compensation study, and certainly nothing in the record, justifies burdening SCE's ratepayers with SCE's decision to give its executives lavish benefits that are not required by law, are likely *not* enjoyed by SCE's ratepayers, and are certainly not enjoyed by SCE's other employees.

DRA continues to recommend zero ratepayer funding for Executive Benefits.

## **9. Administrative and General**

SCE's Opening Brief repeats the same generalizations and unsubstantiated arguments it made in its Direct and Rebuttal testimony to ask for ratepayer funding of what amounts to a **31.5%** increase in TY 2012 over its recorded adjusted expenses in 2009 of \$236.94 million.<sup>80</sup> As DRA discussed in its Opening Brief, SCE says its workload is increasing but provides no verifiable data to back up the claim. For example, a comparison of the hours its staff now spends working on various projects, to the additional hours SCE expects new tasks in the "increased workload" to require, would have been helpful. SCE's "take our word for it" approach is not.

In future GRCs, if SCE is going to ask its ratepayers to fund this kind of workforce expansion, SCE should provide some objective evidence that current staffing levels are inadequate.

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<sup>77</sup> Ex. DRA-15, p. 19, lines 20-22.

<sup>78</sup> DRA's recommendations specific to the Total Compensation Study are addressed in Section 8.5.

<sup>79</sup> SCE Opening Brief, p. 257.

<sup>80</sup> Ex. DRA-12-R, p. 8.

### 9.1.1. Account 925 – Liability Insurance

For Liability Insurance in 2012, SCE is seeking a \$39.355 million increase over its 2009 recorded amount of \$13.208 million.<sup>81</sup> SCE describes its proposal as “budget based.”

In its Opening Brief, SCE says the reason for proposed increase is, primarily, “...the increase in the cost of wildfire liability insurance and SCE’s *intent* to purchase supplemental wildfire liability insurance.”<sup>82</sup> As SCE’s insurance broker testified, SCE did not purchase supplemental wildfire insurance in 2010. In fact, according to SCE’s broker, “I believe their intent is that if the Commission allows those costs, that they would purchase that insurance.”<sup>83</sup>

SCE’s argument about the critical need for supplemental wildfire liability insurance is curiously at odds with SCE’s conduct. If SCE truly views supplemental wildfire insurance as necessary only if someone else pays for it, it suggests that either SCE has exaggerated the urgency of the need for this coverage, or is placing financial results for its shareholders over public safety and the interests of its customers. In any event, DRA recommends that the Commission *not* adopt SCE’s budget-based proposal. DRA continues to recommend the Commission adopt SCE’s recorded 2010 expenses of \$28.366 million for the Test Year, which is more than twice what SCE recorded in expenses for 2009.<sup>84</sup>

### 9.18. NERC-CIP – Related Costs

In its Opening Brief, SCE states that DRA “may be under the mistaken belief that [NERC CIP] costs should be recovered through another proceeding, such as a FERC rate case proceeding.”<sup>85</sup> DRA is not mistaken. As demonstrated in DRA’s Opening Brief, these NERC CIP costs have to be allocated 100% to FERC jurisdictional ratepayers. SCE’s own FERC filing unequivocally shows such.<sup>86</sup>

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<sup>81</sup> SCE Opening Brief, p. 279.

<sup>82</sup> SCE Opening Brief, p. 279, emphasis added.

<sup>83</sup> 19 RT 3145-3146, Kempsey/ SCE.

<sup>84</sup> Ex. DRA-12-R, p. 48.

<sup>85</sup> SCE Opening Brief, p. 275.

<sup>86</sup> See, DRA Exhibits 37 and 38.

SCE then goes on to state that it has demonstrated that “NERC CIP costs have both been included in the test year expenses and properly allocated between FERC and CPUC jurisdictions.”<sup>87</sup> SCE’s proof for this: a statement from a subject matter expert who states:

I’m not super familiar with the RO Model itself, but the 11, 626,000 is the amount within this account. And each one of these accounts has an allocation between ISO and non-ISO within the RO Model.<sup>88</sup>

That is, the **only** proof that SCE can point to that SCE is not double-collecting NERC CIP costs from both of its jurisdictional ratepayers, is a statement from someone who is “not super familiar with the RO model itself.”<sup>89</sup> Moreover, this very witness admitted that the RO Model does not allow anyone to delve deeper into the \$11,626,000 in the account and as such there is no way to determine whether or not SCE has been improperly recording these costs on the CPUC side of the RO ledger.<sup>90</sup>

## **10. Power Procurement**

### **10.1. MRTU-Related Expenses Are Properly Booked to the MRTU Memorandum Account**

In its Opening Brief, SCE argues that:

...[It] has provided compelling testimony describing why it is now appropriate to move MRTU-related costs into this GRC. MRTU first went live on March 31, 2009 after many years of development. While it is true that there are on-going refinements and changes to MRTU that will require additional expenditures in the years ahead, the bulk of MRTU development work was completed years ago. Moreover, as long as MRTU exists, there would continue to be refinements and changes. .... SCE believes that given the stability that MRTU has achieved, it is now appropriate to include MRTU costs in the GRC. Therefore, the Commission should reject DRA’s proposal and approve these amounts in this GRC.<sup>91</sup>

It is not clear what compelling argument SCE thinks it has provided to support moving MRTU costs to the GRC, other than those reprinted above, and in those, SCE does not even

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<sup>87</sup> SCE Opening Brief, p. 275.

<sup>88</sup> 22 RT 3683:6-10, Varvis/SCE.

<sup>89</sup> Id.

<sup>90</sup> Id at 3683:11-14 and 3684:3-13.

<sup>91</sup> SCE Opening Brief, p. 281.

address the currently open proceedings. At a minimum, SCE should have explained why the Commission should approve forecasts that are based on costs that the Commission has not yet found reasonable in the pending applications. There is little by way of historical costs to base the reasonableness of future MRTU costs in this GRC. Similarly, SCE only had 2009 MRTU costs at the time it prepared this GRC. It is not reasonable to base an average or a trend on one year's historical costs even if the Commission has found said costs reasonable. How did SCE determine which direction the one-year cost is trending and why should the Commission assume that SCE's determination is reasonable?

Contrary to SCE's argument in the Opening Brief that the bulk of MRTU work was completed years ago, Resolution E-4087, adopted in 2007, explicitly recognized that MRTU would take many more years to implement, that it would include several "releases" before it was complete, and that the utilities had a significant role in the implementation:

The CPUC recognizes that MRTU is a major project undertaking and Release 1 implementation, currently scheduled for February 2008, is just the beginning of implementing a complete MRTU.<sup>22</sup> and The IOUs should be prepared with the necessary resources, tools, computer software and hardware to be able to implement MRTU Release 1, currently scheduled for February 2008, and all subsequent Releases.<sup>23</sup>

MRTU is not simply a CAISO project. To work properly, the utilities have been required to update their own computer systems to work in concert with the CAISO's system, and this is the basis for the capital expenditures forecast by SCE for this GRC. While "Release 1" of the MRTU was implemented by the CAISO on March 31, 2009 – MRTU has not been fully implemented by either the CAISO or the utilities, and it is still appropriate to book SCE's own implementation costs to the MRTU Memorandum Account.

SCE also asserts in its Opening Brief that "DRA provides no rationale for why the MRTUMA should continue."<sup>24</sup> The Resolution itself provides the rationale. Resolution E-4087 expressly contemplated that the utilities would be investing in capital projects associated with

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<sup>22</sup> Resolution E-4087, p. 4 (May 24, 2007).

<sup>23</sup> Resolution E-4087, p. 5 (May 24, 2007).

<sup>24</sup> SCE Opening Brief, p. 280.

MRTU implementation through 2012. It states: “Additional capital costs and O&M costs are forecast as on-going through 2012.”<sup>25</sup> Resolution E-4087 clearly reflects the Commission’s understanding that MRTU would be a multi-year process with uncertain costs because of uncertain CAISO requirements:

MRTU implementation will be a multi-year process and the CAISO has not determined all of the requirements it will have for market participants. While the CAISO plans to implement MRTU Release 1 by February 2008, it also plans for a Release 2 sometime in 2009, and possibly subsequent releases.

It is expected that the IOUs will incur expenses related to software development and revisions, computer hardware, internal labor costs, and possible contractor or consultant work that would be allocated to MRTU. Since the CAISO has not designed or set out the requirements for subsequent releases, there is currently no firm cost or expense estimate.

Given the extremely large costs associated with SCE’s on-going implementation of MRTU – \$16.4 million for “CASIO MRTU Market Enhancement” and \$7.7 million for “Future Market/Performance Enhancement”<sup>26</sup> – it is appropriate to book these costs to the MRTU Memorandum Account where they can be reviewed against SCE’s other expenditures for MRTU implementation. Among other things, this will permit the CPUC to review the entire scope of costs associated with MRTU implementation to determine whether the currently-proposed programming investments are reasonable, or not.

#### **10.2. SCE Does Not Need Additional Resources to Meet California’s 33% RPS Target in 2020**

SCE’s Opening Brief on PPBU labor and non-labor needs spans all of four pages but only addresses SCE’s alleged need for additional resources to meet California’s 33 Percent RPS target. SCE’s Opening Brief omits the other justifications or “drivers” it previously claimed for needing more PPBU resources.

According to SCE’s Opening Brief:

SCE has addressed [DRA’s arguments] ... in Exhibit SCE-23 and will not fully reiterate those arguments again here. SCE will

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<sup>25</sup> Resolution E-4087, p. 6 (May 24, 2007).

<sup>26</sup> Ex. SCE-8, pp. 112-156.

instead summarize its position on those arguments here and focus on DRA's fourth argument [the 33 percent RPS as a driver for resource need] in more detail below<sup>27</sup>.

It would seem that, in declining to address the arguments already made in Exhibit SCE-23, SCE has opted for brevity in its 400 page-plus Opening Brief, at least on PPBU issues. Given the fact that the bulk of the arguments SCE made on *non*-PPBU issues in its Opening Brief, SCE also made in its Rebuttal, this reticence is unusual. Given the evidence on the PPBU arguments SCE merely summarizes, however, perhaps the less said about them, the better.

Since SCE has not specifically withdrawn that testimony, DRA assumes that the Commission will still need to address the arguments in its final decision. The arguments and the evidence are described in DRA's Opening Brief and include the following:

- SCE recorded contingency workers as non-labor thereby eliminating or obscuring the impact of about 1600 workers who were still available to do the work in PPBU. Although in another section of its Opening Brief, SCE addressed its commingling of FERC Account 921 and FERC Account 923, SCE did not address the fact that it never accounted for 1600 contingent workers in its PPBU workforce and why they would not be available to do the work described in the new positions. This is especially important when SCE has often hired such contingency workers to full time positions without prior Commission authorization.
- SCE has not convincingly explained how it determined the need for additional labor resources in PPBU when it still has about thirty-nine open positions that have been vacant for more than one year.
- SCE has not justified inclusion of NERC/CIP costs in this forecast when those costs are FERC-authorized and were supposed to be recovered 100 percent through FERC. SCE testified that these NERC/CIP costs were the biggest driver for a lot of SCE's IT&BI and PPBU resource needs.<sup>28</sup>

SCE's arguments for increasing PPBU expenses do not withstand scrutiny. DRA's recommendations should be adopted.

#### **10.2.1. 33% RPS Program**

SCE mischaracterizes DRA's position on why SCE does not need substantial additional new resources to support the 33% RPS program. According to SCE, "DRA's analysis assumes a

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<sup>27</sup> SCE Opening Brief, p.281.

<sup>28</sup> DRA Opening Brief, pp. 268-272; 340-350.

100 percent success rate of contracted projects achieving commercial operation.”<sup>99</sup> SCE also says “...DRA’s utilization of a 100 percent project success rate in its assumptions.. is misleading.”<sup>100</sup>

SCE does not provide a cite to DRA’s testimony where DRA is supposed to have assumed a 100 percent success rate; instead SCE cites to its own testimony.<sup>101</sup> What DRA’s testimony actually says is that, given the fact that SCE has executed enough contracts to meet the 33% RPS obligations ten years ahead of schedule, SCE is sufficiently staffed to add and manage additional contracts to off-set the failure rate.<sup>102</sup>

Second, SCE argues that “the integration of intermittent renewable energy onto the electric system significantly impacts all market participants, not just (or even predominantly) the CAISO.”<sup>103</sup> There is no dispute that “integrating renewable energy” impacts utilities as well as system operators. What is at issue in this proceeding is whether those impacts are different or incremental in a manner that necessitates additional labor resources to accommodate the new RPS mandate to increase renewable energy procurement from 20 percent in 2010 to 33 percent in 2020.

DRA posits that the incremental impacts would be mostly borne by the CAISO in ensuring the voltage stability during periods of intermittency. The CAISO may need additional resources and specific technology to address periods of low wind or cloudy days. However, the utilities plan for this integration far in advance of the period that the resources would be needed or the period they would serve. This planning is done biennially in the Long Term Procurement Planning proceeding. Hence, the utilities will not be doing anything they do not already do, even if they do it in slightly different ways, like procuring and scheduling more ramping technology and developing a dynamic portfolio mix. In fact, even if the impact of the 33 percent RPS law on the utilities was incremental, the utilities cannot now tell how the law may affect them as the implementation of programs to address the new law is only now being developed. It is important

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<sup>99</sup> SCE Opening Brief, p. 281.

<sup>100</sup> SCE Opening Brief, p. 281.

<sup>101</sup> SCE Opening Brief, p. 281, fn 1829 citing Ex. SCE-25, p. 22.

<sup>102</sup> Ex. DRA-14, pp. 7-13.

<sup>103</sup> SCE Opening Brief, p.281.

to note that the primary focus of most of these programs is to reduce the cost and impact of the new mandate on ratepayers by way of reduction in costs.

In its Opening Brief, SCE argues that it is “required to manage and implement several new mandatory renewable energy procurement programs...,”<sup>104</sup> but the programs that SCE lists are simply procurement mechanisms, different ways of doing the same thing. Rather than continue the part of lengthy, time-consuming, all source solicitations, the Commission developed the Renewable Auction Mechanism, for instance, to simplify procurement of smaller renewable resources. SCE will procure one hundred percent of what it needs to serve its clients one way or the other; a standardized procurement mechanism should decrease costs.

In its Opening Brief, SCE says that:

DRA believes that because these are standard contract programs, they are therefore simpler to administer. In its testimony, SCE provided compelling evidence that the regulatory process to establish and update the various procurement programs is far from simple.<sup>105</sup>

As this passage recognizes, DRA did try to make sense of SCE’s speculative projections of resource needs, but SCE provided no evidence to support them. Asked how SCE matched renewable contracting need to its request for new employees, SCE gave only the vaguest of answers.<sup>106</sup> Asked how SCE determined that it needs additional positions when it clearly had many vacant positions in the same departments, SCE gave no explanation.<sup>107</sup>

Nothing in SCE’s testimony or Opening Brief justifies SCE’s request. DRA continues to recommend that SCE’s request for additional employees for the 33 percent RPS be denied.

#### **11. Operations Support**

DRA’s Opening Brief addresses SCE’s arguments in this area.

#### **12. Ratemaking**

DRA’s Opening Brief addresses SCE’s arguments in this area.

#### **13. Sales and Customer Forecast**

DRA’s Opening Brief addresses SCE’s arguments in this area.

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<sup>104</sup> SCE Opening Brief, p. 282.

<sup>105</sup> SCE Opening Brief, p.283.

<sup>106</sup> See 20 RT 3265 – 3267, Cini/ SCE.

<sup>107</sup> See 20 RT 3278:2-28, Cini/ SCE.

**14. Cost Escalation**

DRA's Opening Brief addresses SCE's arguments in this area.

**15. Other Operating Revenue**

DRA's Opening Brief addresses SCE's arguments in this area.

**16. Post Test Year Ratemaking**

**16.1. SCE's Arguments**

In its Opening Brief, SCE says that the DRA and Aglet proposals for Post Test Year ratemaking "...would cripple SCE's ability to do business in 2013 and 2014 and impede our ability to make improvements that are necessary to provide safe and reliable service for our customers during these non-test years."<sup>108</sup> Even allowing for rhetorical flourishes, this is nonsense.

As a matter of law, SCE's current rates are presumed to be just and reasonable.<sup>109</sup> As a matter of fact, SCE's President has testified under oath that SCE is presently operating its system on those rates in a safe and reliable manner.<sup>110</sup>

If the Commission adopts DRA's recommendations, in TY 2012, SCE will have a CPUC jurisdiction revenue requirement of approximately \$5.3 billion, an amount roughly equal to SCE's 2012 revenues at present rates, at which it is providing safe and reliable service. In the Post Test Years, SCE will get increases of approximately \$216 million in 2013 and \$116 million in 2014.<sup>111</sup> SCE, however, wants an increase of \$507 million in 2013 and \$600 million in 2014.

SCE seems to view Post Test Year increases as some sort of immutable right. SCE is wrong. As noted in numerous Commission decisions:

The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all business experience.... Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.<sup>112</sup>

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<sup>108</sup> SCE Opening Brief, p. 309.

<sup>109</sup> Public Utilities Code §§ 451, 454.

<sup>110</sup> 8 RT 652, Litzinger/SCE.

<sup>111</sup> Ex. DRA-21, p. 1.

<sup>112</sup> See e.g., Re Southern California Gas Company (1993) 52 CPUC 2d 471, 492; D.93-12-043; See also, Opinion Denying Relief (2003) D.03-03-034.

Post Test Year increases are intended to tide a utility over until its next rate case, something more on the order of a snack in-between meals, rather than a glutton's feast.

In SCE's past two GRC decisions the Commission unequivocally rejected SCE's proposed "budget-based" capital forecasts for Post Test Year ratemaking. Undeterred, SCE is back again in this GRC trying the same thing. This time, though, SCE says its "2012 – 2014 capital forecast, which has been subject to cross examination .... has been fully vetted in this proceeding."<sup>113</sup> It is not clear what SCE means by "fully vetted," but if SCE is suggesting that it met its burden of proof, SCE is mistaken.

DRA reviewed SCE's Test Year capital project proposals, finding many of those to be unnecessary, duplicative and/ or unsubstantiated. DRA had neither the time nor the resources to conduct a detailed analysis of two more years of SCE's grandiose investment schemes. To DRA's knowledge, no party did.

SCE's suggestion that cross examination by "intervenor like ESRA"<sup>114</sup> about particular capital projects shows SCE has met its burden of proof is not borne out by the record. On the contrary, ESRA demonstrates persuasively that SCE's budget-based forecasts for Post Test Year capital expenditures are ill-conceived and unrealistic. For example, ESRA's analysis of SCE's budget-based forecasts to remove the existing Lee Vining substation, and replace it with a new substation in an avalanche area demonstrates how completely unreliable SCE's approach is, and how ill-advised the Commission would be to use it.<sup>115</sup>

## **16.2. PG&E's Arguments**

In its Opening Brief, PG&E argues that "Adoption of SCE's PTYR Proposal is Necessary to Provide SCE a Meaningful Opportunity to Earn a Reasonable Return on its Investment and to Recover its Reasonable Costs."<sup>116</sup> Presumably PG&E does not want the Commission to adopt a Post-Test Year Ratemaking proposal based on the Consumer Price Index for SCE because PG&E does not want CPI applied to its own upcoming GRC.

According to PG&E, "[s]ome form of post-test year adjustment mechanism is therefore necessary if SCE is to have a reasonable opportunity to earn its authorized rate of return in 2013

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<sup>113</sup> SCE Opening Brief, p. 314.

<sup>114</sup> SCE Opening Brief, p. 315.

<sup>115</sup> ESRA Opening Brief, pp. 70-80.

<sup>116</sup> PG&E Opening Brief, p. 5, Heading B.

and 2014.”<sup>117</sup> DRA’s recommended CPI approach does just that. DRA’s recommended revenue increases in 2013 and 2014 are less costly to ratepayers, and would still allow SCE to operate its business in a way that provides safe and reliable service to its customers, and allows SCE the opportunity to earn its authorized rate of return. In fact, after the last GRC when the Commission explicitly rejected SCE’s PTYR Proposal, SCE earned over its authorized rate of return in 2009 and expected to do so in 2010 as well.<sup>118</sup>

As to DRA’s proposal for PTYR for expenses, PG&E offers the following: “SCE’s request, which would allow recovery of SCE’s actual increased labor and labor-related expenses, is thus just and reasonable and consistent with cost-of-service ratemaking.” PG&E then references a 1998 decision referring to the fact that utilities are allowed dollar-for-dollar recovery for reasonable expenses....”<sup>119</sup>

As discussed in DRA’s Opening Brief, there is absolutely nothing “reasonable” about allowing SCE a blank check for wage increases at ratepayer expense.<sup>120</sup> DRA continues to recommend the Commission adopt DRA’s Post Test Year Ratemaking proposals.

### **16.3. CCUE’s Arguments**

In its Opening Brief, CCUE says that “DRA provides no evidence that future wage increases will track CPI.”<sup>121</sup> DRA agrees that, as long as SCE has zero incentive to contain its labor and labor related costs, there is no evidence that SCE will do so. DRA notes the following evidence from the Bureau of Labor Statistics that is in the record:

The CPI is often used to adjust consumers’ income payments (for example Social Security) to adjust income eligibility levels for government assistance and to automatically provide cost-of-living wage adjustments to millions of American workers. As a result of statutory action the CPI affects the income of millions of Americans. Over 50 million Social Security beneficiaries, and military and Federal Civil Service retirees, have cost-of-living adjustments tied to the CPI. In addition, eligibility criteria for millions of food stamp recipients, and children who eat lunch at

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<sup>117</sup> PG&E Opening Brief, p. 5.

<sup>118</sup> Ex. SCE-15, Appendix A, Tables for Testimony SCE -10, Vol. 1.

<sup>119</sup> PG&E Opening Brief, p. 12, footnote 36.

<sup>120</sup> DRA Opening Brief, p. 400.

<sup>121</sup> CCUE Opening Brief, p. 23.

school are affected by change sin the CPI. Many collective bargaining agreements also tie wage increases to the CPI.<sup>122</sup>

In connection with the PTYR capital forecasts, CCUE argues that, if SCE's capital budget forecasts are correct, the result of adoption of DRA's proposal "...will be a sacrifice of modernization or maintenance (or both) because SCE certainly will not accept a reduction in earned return on equity."<sup>123</sup>

Apart from the fact that it is highly unlikely that SCE's capital forecasts are correct in light of SCE's past track record and in light of some of the dubious capital projects highlighted by ESRA, this argument of CCUE's underscores a very different concern. If it is the perception of CCUE, an ally of SCE on the issue of PTYR, that SCE is managing its business based on financial results for its shareholders rather than the operational needs of its customers, this is yet another reason the Commission should *not* adopt a budget-based revenue requirement for SCE.

**17. Productivity**

DRA Opening Brief addresses SCE's arguments in this area.

**18. Electric Plant**

DRA Opening Brief addresses SCE's arguments in this area.

**19. Taxes**

DRA Opening Brief addresses SCE's arguments in this area.

**20. Rate Base**

SCE's Opening Brief repeats the arguments SCE made in Rebuttal on the issue of rate base. DRA's Opening Brief addresses those areas where DRA disagrees with SCE.

As to the issue of Customer Deposits, TURN has taken the lead in reviewing SCE's arguments. TURN has presented a thoughtful, reasoned analysis that is consistent with the record, the facts in this case and Commission policy. DRA recommends the Commission adopt TURN's position in its entirety.

**21. Non-Tariffed Products and Services**

DRA Opening Brief addresses SCE's arguments in this area.

**22. Depreciation**

DRA Opening Brief addresses SCE's arguments in this area.

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<sup>122</sup> Ex. DRA-81, p. 4 of 4.

<sup>123</sup> CCUE Opening Brief, p. 25.

**23. Jurisdictional Cost Separation**

DRA Opening Brief addresses SCE's arguments in this area.

**24. Other Results of Operations Issues**

DRA Opening Brief addresses SCE's arguments in this area.

**25. Audit**

DRA Opening Brief addresses SCE's arguments in this area.

**26. Conclusion**

For all the foregoing reasons, and the reasons set forth in its testimony, and its Opening Brief, DRA asks that its recommendations be adopted.

Respectfully submitted,

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